

STRATEGIC SOURCING SUPPORT OFFICE

STRATEGIC SOURCING: A BROADER APPROACH

DIRECT CONVERSION GUIDE

Studies of 10 or fewer Navy
civilian positions for possible
conversion to contract



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TABLE OF CONTENTS

1.1	INTRODUCTION	4
1.2	ALTERNATIVES TO DIRECT CONVERSION	4
1.2.1	<i>Incorporate into Existing A-76 Cost Comparison</i>	<i>4</i>
1.2.2	<i>Conduct an A-76 Cost Comparison.</i>	<i>4</i>
1.3	PREREQUISITES.	5
1.4	STUDY PROCESS FOR POTENTIAL DIRECT CONVERSION.....	5
1.5	STEP 1: PREPARE FOR THE STUDY	6
1.6	STEP 2: GATHER THE REQUIREMENTS.....	6
1.7	STEP 3: CONDUCT A LOCAL MARKET REVIEW	6
1.8	STEP 4: EXECUTE THE COST ANALYSIS	8
1.8.1	<i>In-House Personnel (Labor) Costs.</i>	<i>8</i>
1.8.2	<i>In-House Material Costs.....</i>	<i>8</i>
1.8.3	<i>In-House Overhead.</i>	<i>8</i>
1.8.4	<i>Contract/ISSA Costing.....</i>	<i>8</i>
1.8.5	<i>Contract Administration Costs</i>	<i>9</i>
1.9	STEP 5: PERFORM COST COMPARISON	9
1.10	STEP 6: ANNOUNCE DECISION.....	9
1.11	STEP 7: TRANSITION TO CONTRACT	10

1.1 INTRODUCTION

The Navy Strategic Sourcing process is designed to achieve significant cost reduction along with increased effectiveness throughout the Navy's shore infrastructure. The goal of the program is to determine whether processes can be eliminated, improved or streamlined.

Strategic Sourcing begins with a strategic overview of the business unit(s) to be studied. To achieve maximum benefit from this overview the scope must be as broad as possible. The broad look allows us to employ as many of the tools available for reengineering as possible.

This review is an iterative application of analysis illustrated in the Strategic Sourcing Decision Process diagram (figure 1). As depicted in the diagram, the preferred method of Streamlining Commercial Activities is to conduct an A-76 Cost Comparison. This method would allow for economies of scale to maximize savings. However, the analysis may identify small functions that are commercial in nature, yet do not fit into a larger A-76 study. These commercial activities can be converted to contract operation if 10 or less DoD civilian employees staff them. This process is commonly known as "Direct Conversion". This guide was developed to assist in conducting Direct Conversions.

The Strategic Sourcing Decision Process diagram identifies conversion of Commercial functions directly to a preferred service provider, such as NISH/NIB/JWOD providers. This guide can also be used for the evaluation of these alternatives.

1.2 ALTERNATIVES TO DIRECT CONVERSION

Before initiating a study of a function involving 10 or fewer personnel, consider alternatives to the Direct Conversion.

1.2.1 Incorporate into Existing A-76 Cost Comparison

Consider consolidating the study of the function with similar functions at other commands in the region or with related functions at the same command in a larger A-76 cost comparison. Such an approach offers two major benefits:

- Economies of scale and opportunities for larger savings in the function and its associated overhead in the most efficient organization; and
- Efficiencies in contract administration if the decision is to convert to contract

1.2.2 Conduct an A-76 Cost Comparison.

No study of 11 or more FTEs should be modified in any way to be able to qualify as a Direct Conversion. This is supported in the *OMB Circular Number A-76 Revised Supplemental Handbook*, Chapter 1, which states, "In no case, shall any commercial activity be modified, reorganized, divided, or in any way changed for the purpose of circumventing the requirements of this ... Supplement." A similar requirement is found in 10 U.S. Code 2461. Thus, if there is a natural business unit of more than 10 persons that is commercial in nature, we should conduct an A-76 study on this entire group.

Recognizing that consolidation of smaller functions in a regional context or in base-wide context may not be feasible in all instances, this guide was developed to assist commands performing Direct Conversions involving functions with 10 or fewer civilian personnel.

1.3 PREREQUISITES.

We must notify Congress before beginning the analysis to support a Direct Conversion. The Navy announces these conversions to Congress as a courtesy, as law does not require it. OPNAV N4 coordinates the announcement. The information required for each announcement changes. Updated templates for this information are stored on the Strategic Sourcing Support Office (3SO) website.

OPNAV N4 and 3SO will enter the potential Direct Conversion into the Commercial Activities Management Information System (CAMIS) database to track its progress. Claimants then keep the CAMIS database up to date in accordance with the most recent guidance contained in OPNAVINST 4860.7C and DODINST 4100.33.

1.4 STUDY PROCESS FOR POTENTIAL DIRECT CONVERSION

This section of the guide outlines a seven-step process to perform the evaluation to support a Direct Conversion. (Refer to Figure 2 for the flow diagram). This process should require no more than 40 to 80 hours of effort and provides a means to compare commercial and in-house costs at a reasonable level of accuracy.

The initial step is to prepare for the study. A lead person is assigned to conduct and oversee the study, a timeline is developed and the organization begins to prepare for change.

The second step in the process is to gather product and/or service workload requirements. The purpose of this step is to not only define

what the product or service is but also how much of it is required.

Once the requirements have been determined, the third step involves conducting a market review to determine the commercial price and availability to provide the product or service. The step provides a suggested process for obtaining information on existing contracts or, if not available, conducting interviews with local area suppliers.

The fourth step describes a process for estimating both the Government's cost and that of private industry to produce the product or service. This abbreviated cost method relies on assumptions contained in Chapter 5 of the A-76 Handbook when describing Streamlined Cost Comparisons of less than 65 FTEs or less. Specifically, these assumptions are:

- Competition will focus largely on a labor and material basis,
- Significant capital asset purchases will not be required or equipment requirements will be Government Furnished/Contractor Operated, and
- The Government and/or private industry commonly contracts the function and reasonably grouped price comparisons are possible.

The cost comparison is performed to determine whether the function should stay in-house or be contracted. Before collecting costs, however, decision criteria should be developed for either retaining the function in-house or converting to contract if the results of the cost comparison reveal there is no significant cost difference. Then costs are collected/developed and a comparison is made.

Three outcomes are possible:

- If the comparison shows the estimated Government cost to be below the

contract/ISSA price range, the function should remain in-house.

- If the estimated Government cost is above the contract/ISSA price range, the function should be contracted.
- If the estimated Government cost falls within the contract/ISSA price range, the decision to remain in-house or convert to contract is made by the contracting officer based upon the non-cost decision factors established earlier in this step.

If the decision is to convert to contract, the organization then transitions to contract performance.

1.5 STEP 1: Prepare for the Study

Although the study of a potential Direct Conversion is not difficult, some planning is required.

First, appoint a study leader with strong analytical skills and organizationally positioned so that he/she can conduct the study without bias and with enough seniority to act independently.

A time line should be developed. Because the study is a relatively simple process, the time line consists principally of planning the procurement and transition processes.

Another preparatory step is to prepare the organization for change. The affected organization must understand the goal of leadership in conducting the study, the process to be followed and the potential impacts. The affected personnel are not only those actively performing the work, they include their support and their customers. While people are often resistant to change, change is facilitated by these preparations.

1.6 STEP 2: Gather the Requirements.

The second step of the process is to firmly establish what the product or service is and how much of it is required. This step is critical as properly defining the product or service is essential in order to obtain estimates of contract price, and quantities are essential in order to compare the commercial cost to the in-house cost.

The product or service definition and requirements can be established by meeting with the managers, employees, and recipients of the service. During this meeting or meetings, the group should:

- Establish and list the products and services,
- Define the unit of measurement (i.e. per square foot, per hour, etc.) that is used to determine volume of the product or service (contacting local commercial suppliers to determine how they price or measure is a good sounding board),
- Determine what records (automated reports, work order files, logs, etc.) will provide detail on the volume required per year, and
- Assign lead and completion time responsibilities to the appropriate person(s).

The team leader must then ensure all actions are completed and appropriate documentation is provided. All data should be summarized by product or service and filed with other material to provide an audit trail.

1.7 STEP 3: Conduct a Local Market Review

Conducting a market review of current or recently expired contracts/ISSAs in the local area will provide insight into the type of services available commercially.¹ A good rule

¹ Circular A-76 requires a minimum of no fewer than four comparable contracts or ISSAs to develop contract estimates for functions involving 11 or more civilians.

of thumb is to obtain a minimum of three, but no more than four suppliers. The review will provide essential costing information. This will aid in doing the cost comparison. Two types of market reviews can be performed:

- Collecting existing or recently expired contracts or ISSAs
- "Interview" local area suppliers

The best approach is to determine if there are existing contracts that provide the same or comparable types of products or services. Besides looking at existing Navy and DOD contracts, consider other governmental agencies, such as the GSA, or City, County, and State activities. The Contracting Officer should be able to assist with gathering this information. When reviewing the contracts and ISSAs, determine if the pricing is consistent with or can be converted to workload units defined in the first step.

In the unlikely event that existing or expired contracts or ISSAs are not available, document all sources investigated and meet with the Contracting Officer and/or functional personnel to identify potential commercial or other ISSA suppliers. Use a mileage radius that is within a reasonable business commuting distance so pricing information is representative of the area. At this juncture, the Contracting Officer will issue an "Inquiry As to the Availability of Offerors" in the Commerce Business Daily (CBD) if sources of potential suppliers are not readily apparent. This kind of check is needed to ensure we test the market and to keep wishful thinkers (that no one can or wants to perform their function) honest. While this step involves a little more time and expense, they are relatively minimal investments.

Some sources of information on commercial suppliers, would be the newspapers, phone books, yellow pages, libraries, the Internet, and other similar studies. Planners and estimators

within the organization are also a good source for information on rates and units for measure.

Once the potential suppliers have been chosen, conduct an interview with the supplier to gather facts. The interview can be via phone or in person. Prior to the interview process, formulation of the questions is important to be assured the necessary information is collected. Determine who within the organization will be interviewed. Interviews with managers or supervisors are often the best approach. If conducting personnel interviews, arrangements for the time and place of the interview should also be made. This will also provide the opportunity for the person to be interviewed to have an idea of the subject matter to be discussed. The following are examples of questions to ask the commercial suppliers or other ISSAs during the interview process:

- How is the product or service typically priced (i.e., square feet, per page, per pound, per hour, etc.)?
- Do you have a standard rate? If so, what is it and is it negotiable?
- How long have you been in business? (This question will assist in determining if they are reputable. A supplier that has been in business five years or more can be considered "established" in the community.)

There may be additional questions that are specific to the study. Add these questions to the ones above.

<p>Decision Factor: After conducting STEPS 1 and 2, if the product or service is <u>NOT</u> available either from existing contracts or ISSAs or from inquiries initiated through the CBD, document the efforts and proceed to "STEP 6: Announce Decision". If the product or service <u>IS</u> available, continue with "STEP 4: Execute The Cost Analysis".</p>
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1.8 STEP 4: Execute the Cost Analysis

A description of the costs associated with the performance of the in-house function needs to be calculated. Conducting a mini cost analysis will assist in determining if the in-house function is competitive with outside contractors or other ISSAs. The cost data to be collected is personnel costs, direct overhead costs, direct materials cost, and existing support contracts over \$500.

The steps outlined below provide a guide to develop the simplified cost analysis. Figure 3 provides a simplified cost comparison form for recording the estimated costs.

1.8.1 In-House Personnel (Labor) Costs.

Personnel costs are the costs for personnel to accomplish the requirements for the function. The current costs of all direct in-house labor and supervision that are necessary to perform the service or provide the product should be documented. When including supervision, calculate only those resources that are devoted to the function that is being studied. If the supervisors are shared across functions, their portion of labor should be included. Costs associated with civilian positions will be determined according to the guidelines in *OMB Circular Number A-76 Revised Supplemental Handbook*.

The personnel costs in the mini cost analysis will include salaries and wages, and fringe benefits. Also, inflation factors will be applied. Other entitlements such as shift differential for Federal Wage System employees, and other pay such as overtime, shift differential for GS employees, or Sunday premium pay should be included where applicable.

When applying the inflation factors, ensure current inflation factors are used. For additional

costing information on personnel costs, refer to the *OMB Circular Number A-76 Revised Supplemental Handbook, Part II, Chapter 2, Section B*.

1.8.2 In-House Material Costs.

Material costs will be determined by obtaining historical records from the past year. Obtain any automated reports (e.g. OPTAR reports) that indicate the cost of materials for the function. Normally, the Comptroller would be a good source for this type of information. Obtain and record the sources of the material information for any future questions regarding the material costs.

1.8.3 In-House Overhead.

Upon completing the calculations of the personnel and materials costs, the overhead costs will be applied. The overhead costs consists of salaries, equipment, space and other activities related to management, accounting, personnel, legal support, data processing management and similar common services performed outside the function, but in direct support of the function.

Apply the overhead rate of 12% as referenced in the *OMB Circular Number A-76 Revised Supplemental Handbook, Part II, Chapter 2, Section E*.

This completes the estimate of in-house costs. The next step is to estimate the contract/ISSA costs.

1.8.4 Contract/ISSA Costing

After completing the Market Review process, a competitive range of costs can be established to use for the cost comparison. If there are current comparable contracts/ISSAs in place, use the bids for the estimated costs. If not, the rates,

unit of measure and other information gathered from interviewing local suppliers will provide the necessary information to estimate the contract costs for the products and /or services.

1.8.5 Contract Administration Costs

If the function goes to contract/ISSA, the costs associated with administering the contract will be incurred and therefore should also be calculated. The *OMB Circular Number A-76 Revised Supplemental Handbook, Part II, Chapter 32, Section C* authorizes .5 administrative position for a 10 and Under Study. The personnel office can provide guidance for the classification for the authorized position based on duties and responsibilities appropriate to the function.

Upon conclusion of the above steps, in-house and contractor estimated costs have been captured. The next section will discuss the decision-making process.

1.9 STEP 5: Perform Cost Comparison

Formulation of decision factors will assist in establishing the criteria for determining the future provider of the function under study.

At this point all of the in-house estimated costs have been calculated. The contract/ISSA estimated costs should be arrayed into a contract/ISSA range.

Decision Factor: If the in-house costs fall below the contract/ISSA range the function should remain in-house.

Decision Factor: If the in-house costs fall above the contract/ISSA range the function should be converted to contract/ISSA.

If the in-house costs fall within the contract/ISSA range, the answers to the following questions should be the basis for determining between keeping the function in-house or going outside via contract or ISSA.

Has the in-house function historically provided quality service or a quality product to its customers?

Decision Factor: If the in-house function consistently provided a quality product or service to the customers, then consideration should be made to keep the function in-house.

Has the in-house function historically had problems maintaining personnel?

Decision Factor: If the in-house function has a rather frequent turnover of employees, or the quality of the product/service provided has been poor, consider contracting the function.

Has the in-house function historically had problems providing the service or product?

Decision Factor: If the service or product is not efficiently being provided to the customer, consider contracting the function.

1.10 STEP 6: Announce Decision

The Contracting Officer announces the decision to remain in-house or to go contract/ISSA. If the decision is to convert to contract, the solicitation process as it pertains to commercial activity studies is started. The contracting officer along with the CA team Leader will determine the type of contract to use for the solicitation. Refer to *Appendix C, Contract Types and Features Chart*, in the *Succeeding at Competition* guide. When the solicitation is issued, the performance start date must be integrated into the transition plan developed in Step 7.

If the decision is to use an ISSA, the Memorandum of Agreement (MOA) implementing the ISSA will be completed as appropriate. For a MOU template, refer to the Fleet and Industrial Supply Center (FISC) *Business Case Analysis Guidebook*.

1.11 STEP 7: Transition to Contract

After the decision is made to convert to contract performance, the transition phase of the project begins. In this phase, we develop and implement a transition plan to match the contract start date solicited in Step 6. This plan will have two key components, the transition of the work from government personnel to the contractor and the transition of the workers who have been relieved by the contractor.

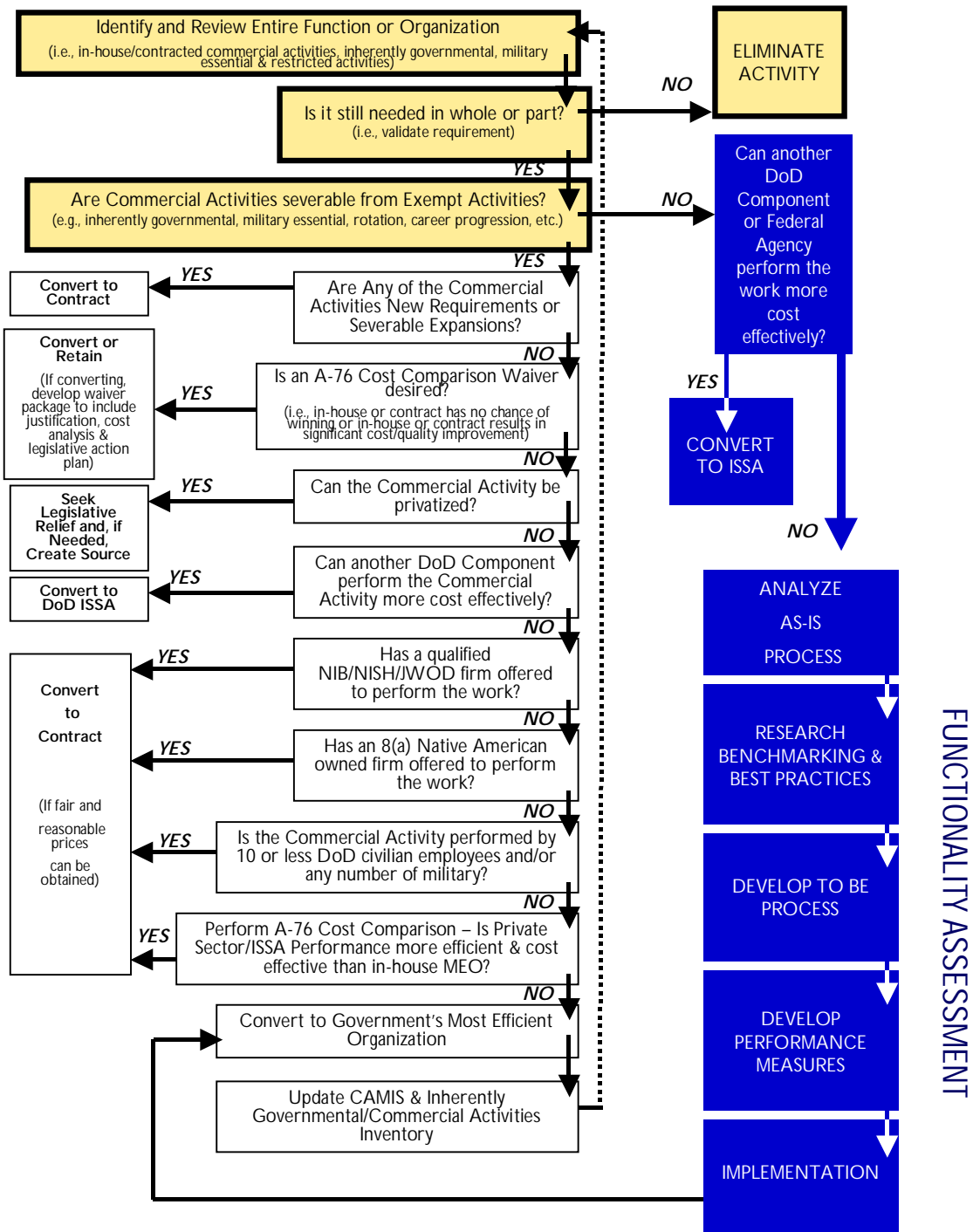
The transition to contract performance will require coordination with the contractor on workload turnover and disposition of government equipment and materials. If the solicitation included an orientation period, this

will need to be planned. The schedule should account for time to orient contract personnel and acquire their badges, vehicle stickers, and building access.

The transition for government workers may encompass placement in other positions, retraining, and Reduction in Force (RIF). Historically, projects have optimistically estimated the time required to execute these actions through the Human Resources system. A Human Resources Specialist should participate in developing a schedule that is executable by the HRO/HRSC.

During the transition phase, reports are required by OPNAVINST 4860.7C to document the conversion to contract operation.

If the decision from step 7 is to retain the function In-House, no transition planning is required.

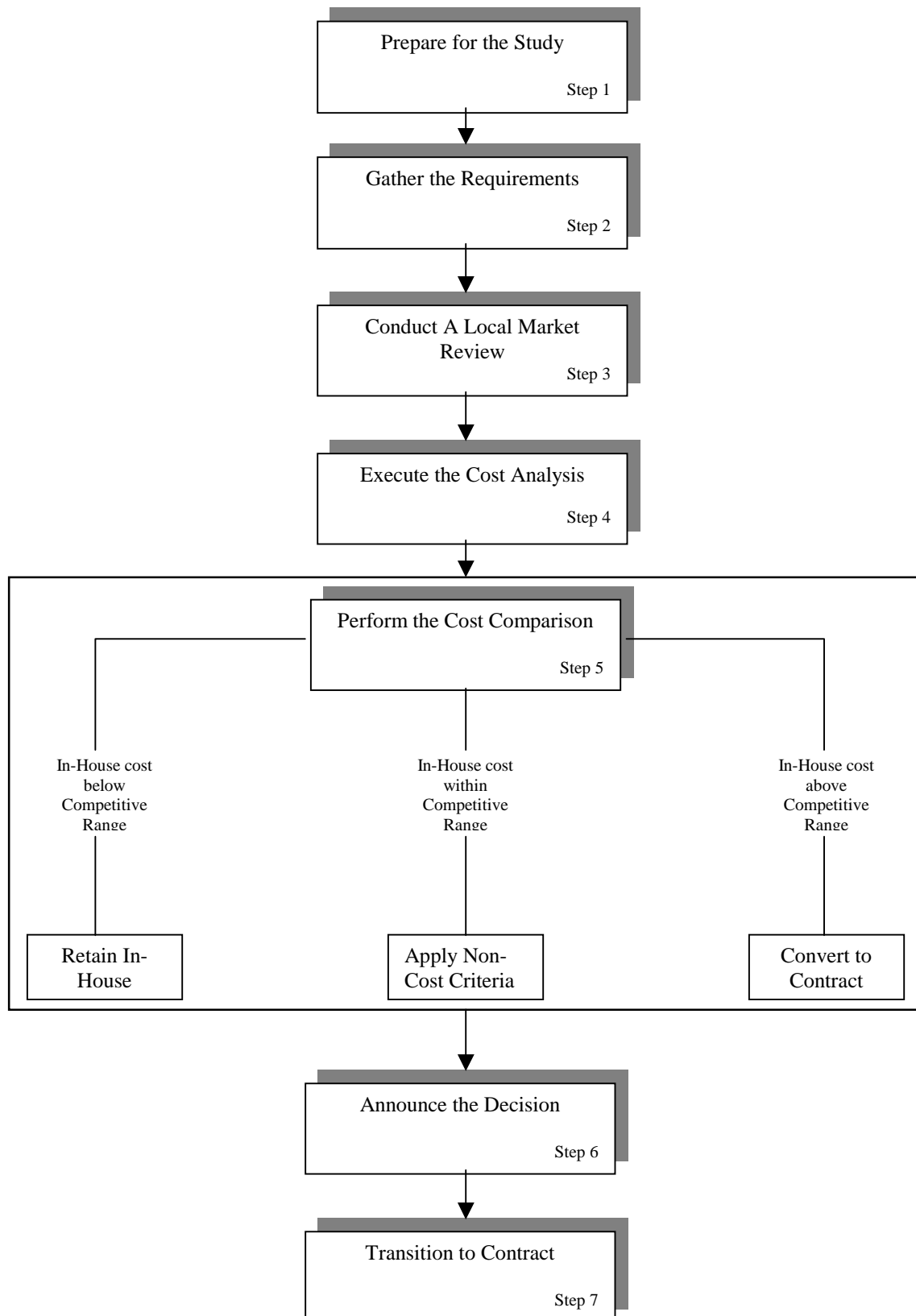


Strategic Sourcing Decision Process

Figure 1

Direct Conversion Process

Figure 2



**SIMPLIFIED COST COMPARISON
FOR A
DIRECT CONVERSION**
FIGURE 3

IN-HOUSE PERFORMANCE		In-house	Commercial/ISSA Estimates		
			1st	2nd	3rd
1	Personnel				
2	Inflation Factor: NN%				
3	Material				
4	Overhead-G&A 12%				
5	Total				
CONTRACT OR ISSA PERFORMANCE					
6	Contract and ISSA Price				
7	Contract Administration				
8	Total Contract and/or ISSA				
DECISION FACTORS (Circle One)					
9	Government Estimate Below Competitive Range	Keep In-House			
10	Government Estimate Above Competitive Range	Convert to Contract/ISSA			
11	Government Estimate Within Competitive Range	Management/Contracting Officer Decision			